SH-69

Hamner Advisory Services

1304 Salem Lane
Chapel Hill, NC 27516

March 29, 2005

Gary M. Jackson
Assistant Administrator for Size Standards
Office of Size Standards
Small Business Administration
409 Third Street, SW
Washington, DC 20416

Re: <u>Proposed Rulemaking Affecting SBIR Funding</u>

Dear Mr. Jackson;

On behalf of Hamner Advisory Services and a number of venture capital and investment baking firms I advise, I thank you for the opportunity to comment on the Small Business Administration's (SBA) Advance Notice of Proposed Rulemaking (ANPRM) regarding the participation of businesses in the SBIR program that are majority-owned by one or more venture capital companies (VCC)

The 37 start-up companies I have helped find funding typifies the small business that the SBIR program was created to help, a small business working to commercialize new technologies. Companies such as theirs normally receive SBIR grants to fuel the research and development that lead to the commercialization of a technology. Along with SBIR funding, their companies have received crucial financial support from venture capital firms. Without venture capital support it is unlikely our technology would be fully commercialized. It is for this reason I believe it is vital that venture backed small businesses such as these be allowed to participate in the SBIR grant program.

I understand the 51% Rule now allows an SBIR award recipient to be owned by a VCC, as long as the VCC is itself owned and controlled by U.S. individuals. Applicants who meet the ownership criteria in the 51% Rule, however, are still subject to SBIR size standards, most significantly, limiting the number of employees of the applicant and its affiliates to 500. The SBA is now seeking comment as to whether VCC's should be excluded from this definition of affiliate when determining small business eligibility for the SBIR program.

While I applaud the SBA's recognition in the 51% Rule that a business concern can be technically both majority-owned by VCC's and still eligible to receive an SBIR award, it does not fully accomplish the goals of Small Business Innovation Development Act (SBIDA), since the majority of limited partners in a VCC are not individuals even in such cases, as in pension funds, they represent the interests of individuals. I believe that a pragmatic framework that reasonably allows VCC-financed small businesses to receive SBIR grants is still several steps away. **The SBA should (1) provide an exclusion from affiliation with VCC's in determining**

Phone: (919) 968-1270 • Fax: (919) 968-3639 • E-mail: cehamner@mindspring.com

Hamner Advisory Services

1304 Salem Lane
Chapel Hill, NC 27516

small business eligibility and (2) further extend an exception to the 51% Rule to include VCC's in the definition of "individuals."

Venture capital funds provide a huge leverage for taxpayer/SBIR funding desperately needed by life science companies to meet Federal product development requirements. In this age of outsourcing jobs overseas, it is important for our economy that small businesses are given every opportunity to commercialize new technologies and create jobs in the U.S. The symbiotic relationship between public and private investment in small businesses through venture capital funding and SBIR grants provide the U.S. economy a competitive advantage over that of other countries.

I appreciate the opportunity to comment on this important matter,

Sincerely,

Charles E. Hamner

Charles E. Hamner DVM, PhD

Phone: (919) 968-1270 • Fax: (919) 968-3639 • E-mail: cehamner@mindspring.com